

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

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In the Matter of:

THE APPLICATION OF LOGAN TELEPHONE)	
COOPERATIVE CORPORATION, INC., FOR)	
ORDER AUTHORIZING THE BORROWING OF)	CASE NO. 8020
FUNDS FROM THE RURAL ELECTRIFICATION)	
ADMINISTRATION AND ADJUSTMENT OF RATES)	

O R D E R

On October 27, 1980, Logan Telephone Cooperative Corporation, Inc., (hereinafter Applicant or Company) filed its duly verified Application with this Commission seeking authority to borrow from the Rural Electrification Administration the principal amount of \$3,150,000 to be amortized over a period of thirty-five (35) years with interest thereon at the rate of five percent (5%) per annum. Applicant also requested authority to increase its rates and charges in order to maintain a reasonable level of working capital and a proper ratio between income and interest obligations; and to provide adequate funds to service its outstanding debt; and to retain its equity position at a satisfactory level. The proposed rates would cause revenues to increase by an additional \$215,200 over normalized test year revenues, an increase of 19.26%.

The case was scheduled for hearing at the Commission's offices in Frankfort, Kentucky, February 5, 1981. All parties of interest were notified and the Division of Consumer Intervention of the Attorney's General Office was the only party intervening in the matter.

By reason of the construction amount involved, the Applicant amended its application orally at the hearing and requested a Certificate of Convenience and Necessity for the construction of extensions, improvements, and upgrading of the telephone service as shown on Exhibit "A".

COMMENTARY

Logan Telephone Cooperative Corporation, Inc., is a Kentucky Corporation established by and under the laws of the State of Kentucky. Applicant provides telephone service to approximately 4475 subscribers in Western Kentucky in the counties of Logan, Simpson, Butler, Todd, Muhlenberg, and Ohio.

TEST YEAR

The twelve months period ending July 31, 1980, has been used in this matter as the test year for the purposes of determining the reasonableness of the proposed rates and charges. In utilizing the historic test period, the Commission has given due consideration to known and measurable adjustments where found reasonable.

VALUATION

The Applicant proposed a net investment rate base as of the end of the test year of \$7,140,095. In determining this net investment, Applicant included an allowance for cash working capital of \$39,974. The Commission is of the opinion that the allowance for working capital should not be included in calculating the net investment rate base inasmuch as the subscribers of the Applicant provide the required working capital through the advance payment of local service rates. The Commission has also adjusted the net investment rate base to include prepayments in the amount of \$15,066.

After consideration of these adjustments, Applicant's net investment rate base would appear as follows:

Telephone Plant in Service	\$ 5,995,260
Telephone Plant under Construction	2,787,387
Materials and Supplies	44,062
Prepayments	15,066
Sub-total	<u>\$ 8,841,775</u>
Less:	
Reserve for Depreciation	1,726,588
Net Investment	<u><u>\$ 7,115,187</u></u>

The Applicant's capital structure as of July 31, 1980, was as follows:

Total Equities and Margins	\$ 821,445
Long Term Debt	6,253,676
Total Capitalization	<u><u>\$ 7,075,121</u></u>

The Commission has given due consideration to these and other elements of value in determining the reasonableness of the proposed rates and charges.

Revenues and Expenses

Applicant proposed no pro-forma adjustments to the test year actual operating expenses. The testimony indicated, however, that adjustments could have been made to reflect anticipated increases in expenses. These adjustments were not adequately supported by the record in this matter and the Commission will not include these adjustments herein.

Based upon the record in this case, the Commission has, however, made several adjustments to reflect known changes in operating conditions. Operating revenues have been increased by \$66,039 to normalize revenues for the test year based on test year-end subscribers. The Commission has also adjusted operating revenues by \$122,053 to include interest during construction.

The Commission has adjusted interest expense by \$94,511 to reflect additional interest on long-term debt outstanding at the end of the test period and the additional long-term debt advanced from REA through January 1981, and by \$122,053 to reflect the interest capitalized during the test year.

Based on the aforesaid adjustments, Applicant's Operating Statement would appear as follows:

	<u>Actual 7-31-80</u>	<u>Proforma Adjustments</u>	<u>Adjusted Test Year</u>
Operating Revenues	\$ 929,454	\$ 188,092	\$1,117,546
Operating Expenses	<u>768,634</u>	<u>-0-</u>	<u>768,634</u>
Net Operating Income	\$ 160,820	\$ 188,092	\$ 348,912
Interest on Long Term Debt (Net)	<u>141,948</u>	<u>216,564</u>	<u>358,512</u>
Net Income	<u>\$ 18,872</u>	<u>\$ (28,472)</u>	<u>\$ (9,600)</u>

Revenue Requirements

The actual rate of return on Applicant's net investment rate base established herein for the test year was 2.26%. After taking into consideration the pro-forma adjustments, Applicant's rate of return would be 4.90%. The Commission is of the opinion that the adjusted rate of return is unreasonable and a more reasonable rate of return would be 7.93% which will be sufficient to allow Logan Telephone to pay its operating expenses, service its debt, and provide a reasonable surplus for equity growth. In order to achieve this rate of return Logan Telephone should be allowed to increase its annual revenues by approximately \$215,200 which is the total amount of increase requested herein.

Summary

The Commission after consideration of all the foregoing and all other evidence of record and being advised finds:

(1) That the proposed \$3,150,000 construction program is in the public interest and should be approved.

(2) That the proposed borrowing is for a lawful object within the corporate purposes of the utility, is necessary and appropriate for and consistent with the proper performance by the utility of its service to the public and will not impair its ability to perform that service, and is reasonably necessary and appropriate for such purpose.

(3) That the rates and charges proposed by Applicant and as set out in Appendix "A" attached hereto are the fair, just and reasonable rates for Logan Telephone Cooperative Corporation, for service on and after the date of this Order. Further, the rates set out in Appendix "B" attached hereto are for service provided by Applicant upon completion of the upgrading of each cable route to one party service only, and are to be effective with the first billing date after conversion of each cable route.

IT IS THEREFORE ORDERED that the rates set out in Appendix "A" attached hereto are hereby approved for services rendered on and after the date of this Order.

IT IS FURTHER ORDERED that the rates set out in Appendix "B" are hereby approved for telephone service rendered on and after the completion of the conversion to one-party service only. Said rates may be placed into effect for each cable route the first billing period after completion of such cable routes to one-party service only.

IT IS FURTHER ORDERED that Logan Telephone Cooperative Corporation is hereby granted a Certificate of Convenience and Necessity to proceed with the construction as set forth in the Application and record.

IT IS FURTHER ORDERED that Logan Telephone Cooperative Corporation is hereby authorized to borrow \$3,150,000 from the Rural Electrification Administration at an interest rate of 5% per annum and to execute its notes and supplemental mortgage therefor.

IT IS FURTHER ORDERED that the proceeds from the borrowings authorized herein shall be used only for the lawful purposes as set out in the Application and record.

IT IS FURTHER ORDERED that the Applicant shall file with this Commission within twenty (20) days from the date of this Order its revised tariff sheets setting out the rates approved herein.

Nothing contained herein shall be deemed a finding of value for any purpose whatsoever nor construed as a warranty on the part of the Commonwealth of Kentucky or any agency thereof as to the securities authorized herein.

Done at Frankfort, Kentucky, this 10th day of April, 1981.

PUBLIC SERVICE COMMISSION

Marlin M. Voh
Chairman

Did not participate
Vice Chairman

Don Hargis
Commissioner

ATTEST:

Secretary

APPENDIX "A"

APPENDIX TO AN ORDER OF THE PUBLIC SERVICE COMMISSION IN CASE NO. 8020, DATED APRIL 10, 1981

The following rates and charges are prescribed for the customers in the area served by Logan Telephone Cooperative Corporation, Inc., on and after the date of this Order. All other rates and charges not specifically mentioned herein shall remain the same as those in effect under authority of this Commission prior to the date of this Order.

Local Service

	<u>Monthly Rate</u>
Residential:	
1 Party	\$ 8.25
2 Party	7.00
4 Party	7.25
Extension	1.75
Business:	
1 Party	14.00
2 Party	12.50
4 Party	9.75
Extension	2.50
Guaranteed Pay Stations	30.00

Directory Listings

	<u>Monthly Rate</u>
Extra Listing(s)	\$ 0.75 per listing
Unlisted Number(s)	1.00 per listing
Non-published Number(s)	1.00 per listing

Key Telephones

	<u>Monthly Rate</u>
Line Rate	\$ 14.00
Extension Rate	2.50

Private Branch Exchanges

	<u>Monthly Rate</u>
PBX Trunk	\$ 44.00
PBX Extension	2.50

Other Items of Local ServiceMonthly Rate

Interior/Exterior Bells	\$ 1.50
Long Cords	.75
Trendline Phones	.75
Automatic Answering Phones	15.00
Data Sets	70.00
Paging Equipment	4.00
Touchtone: Instrument Charge	.50
Residential Rate	1.50
Business Rate	2.50
Intercommunication	2.00
Late Payment Penalty	2.00

Service Connection ChargesNon-recurring Rate

Outside Move	\$ 28.00
Inside Move	24.00
Installation	28.00
Extension Installation	26.00
Reconnections	20.00
Jack Installation	30.00
Name/Number Change	12.50
Long Cord Installation	14.00
Instrument Change	18.50
Bill Installation	26.00
Service Upgrading	15.00
Service Restoral	15.00
Key Set Installation	35.00
Data Set Installation	28.00
Return Check Charge	12.50

Public Telephone ServiceRate Per Message

Local Coin Telephone Rate	\$ 0.25
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APPENDIX "B"

APPENDIX TO AN ORDER OF THE PUBLIC SERVICE
COMMISSION IN CASE NO. 8020, DATED
APRIL 10, 1981

The following rates and charges are prescribed for the customers in the area served by Logan Telephone Cooperative Corporation, Inc., on and after the date of upgrading of each cable route to one party service only. All other rates and charges not specifically mentioned herein shall remain the same as those in effect under authority of this Commission prior to the date each cable route conversion.

Local Service

Residential: 1 Party

Business: 1 Party

Monthly Rate

\$ 14.00

22.00

Key Telephones

Line Rate

Monthly Rate

\$ 22.00